

## **DOE Working Capital Fund**

### **Impacts of Changes to the WCF Cost Structure**

#### **Introduction**

In response to the 1997 Inspector General report, Fund management agreed to “provide a report to the Board that identifies Working Capital Fund business costs not now reflected in the Working Capital Fund pricing structure ... [including] the hypothetical impacts on business line viability of including such costs in the Fund pricing structure.”<sup>1</sup> The first report was transmitted to the Board on June 30, 1998. This current report updates the information in the 1998 report and summarizes areas of change.

#### **Background**

- C Federal Accounting Standards Advisory Board (FASAB) guidelines for managerial cost accounting require that "all costs be recognized in developing the price at which goods and services would be sold to other entities [within the government]." This applies not only to the more business-like franchising operations relying on full reimbursement but also to costs that are not reimbursed.
- However, since FY 1997, the House Energy and Water Development Appropriations Committee report has directed the Department not to include the costs of Federal employee salaries and benefits in the cost structures of the Fund business lines.
- C The 1997 WCF report prepared by the DOE Inspector General also raised the issue of indirect costs, and management agreed to prepare an analysis of such costs by June 30, 1998 and to advise the Board of likely impacts on business line viability.
- Further, the 1998 WCF report of the Inspector General noted that the Office of Management and Administration (then the Office of Human Resources and Administration) spent more for Fund services than other Headquarters customers. This is also linked to the question of whether MA is subsidizing Fund operations, since a portion of the MA payments into the Fund as a consumer is associated with the use by one WCF business of services provided by other WCF businesses.
- C While the policies of the House Appropriations Committee and DOE management preclude the inclusion of DOE Federal salaries and certain related costs in the Fund pricing structure, there remains the question of whether such exclusion may have a material impact on customer and business line behavior. This analytical question, rather than the policy question, is the subject of this report.

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<sup>1</sup> Reference: Attachment to January 13, 1998 memorandum from the Assistant Secretary for Human Resources and Administration to the Acting Inspector General.

- The 1998 report concluded that the costs to the business lines would increase by approximately \$11 million or 13% if the cost structure was expanded to include Federal salaries (\$7.8 million) and other costs (\$3.3 million), with proportionately high impacts in Printing and Graphics and Supplies. Graphics, which is largely delivered through Federal employees, had the highest current subsidy at 89%.

## **Analytic Approach**

The focus of the 1999 analysis was to validate the estimates provided with the 1998 report and to examine in more depth the inter-business subsidization that was occurring through Management and Administration payments as a customer. All amounts are shown for FY 1999 unless otherwise noted.

## **Staffing Levels**

A key driver in the estimation is the attribution of Federal employee activity to the Fund. MA staffing levels have not changed markedly in the past 12 months, but further analysis has been undertaken on staffing assigned to each business line. Also, this analysis includes staffing from the Office of the Chief Financial Officer relative to the Payroll and Executive Information System business lines. Table I compares the results of the 1998 report to the current analysis.

The estimated number of Federal staff delivering WCF services is 131, an increase of 11 from the 1998 analysis. This change is due to inclusion of CFO staffing in this analysis for the first time. On a comparable basis, there has been no increase over the past year in Federal staff performing WCF functions, but there have been minor changes in the distribution of staff among business lines. The salary and benefits cost subsidy for the businesses remains at slightly more than \$8 million, or approximately 10% of projected FY 1999 business line revenues.

It is estimated that there are an addition 9 persons, principally managers, who spend part of their time on Fund business. There are also the Board members and their staff who get involved from time to time.

**Table I:** Federal Employees Engaged in Delivering WCF Services by Business Line, 1998 and 1999

<b>Business Line</b>	<b>Federal Staff, 1998</b>	<b>Federal Staff, 1999</b>	<b>Salaries &amp; Benefits (\$000)</b>
Telephones	3	4	\$311
Networking	2	1	\$100
Desktop	3	3	\$244
Building Occupancy	70	69	\$4,127
Supplies	6	7	\$359
Copiers	2	3	\$119
Mail Services	2	2	\$119
Printing and Graphics	25	22	\$1,628
Contract Closeout	0	0	0
Payroll and Personnel	7	17	\$1,134
Executive Information System	NA	1	\$92
WCF Management Activity	NA	2	180
<b>Total</b>	<b>120</b>	<b>131</b>	<b>\$8,414</b>

### **Inter-Business Transactions**

Working Capital Fund businesses consume goods and services that are provided by other Fund business, but heretofore only a small proportion of these charges are made to the consuming business. For the most part, Management and Administration has paid these costs as though they derived from non-WCF MA activities. The 1998 analysis estimated these costs at approximately \$3.3 million. A more detailed analysis was undertaken in 1999, and it is estimated that the inter-business transactions would amount to approximately \$3.8 million. These are summarized in Table II and provided in more detail in Attachment A.

Table II: Inter-Business Costs (\$000)			
<b>Business Line (Consumer)</b>	<b>Building Occupancy</b>	<b>Other</b>	<b>Total</b>
Telephones	\$16	\$70	\$86
Networking	\$0	\$6	\$6
Desktop	\$8	\$58	\$66
Building Occupancy	\$317	\$364	\$681
Supplies	\$716	\$43	\$759
Copiers	\$373	\$22	\$395
Mail Services	\$321	\$18	\$339
Printing and Graphics	\$1,075	\$144	\$1,219
Contract Closeout	\$46	\$14	\$60
Payroll and Personnel	\$147	\$117	\$264
Executive Information System	0	\$6	\$6
WCF Management Activity	0	\$17	\$17
<b>Total</b>	<b>\$2,961</b>	<b>\$878</b>	<b>\$3,839</b>

The major areas of change between the 1998 estimate of \$3.3 million and the \$3.8 million estimate for 1999 are (i) the addition of the categories of Executive Information System and WCF Management Activity, (ii) inclusion of CFO indirect costs for Payroll, and (iii) the extension of the analysis to the non-Building Occupancy costs for the Working Capital Fund businesses. Much of the non-Building Occupancy costs (telephones, LAN connections, office supplies and related elements) are driven by the number of Federal employees associated with the business lines.

### Overall Cost Impacts on Businesses

Overall, we estimate that including the Federal salaries and inter-business costs in the Fund would expand Fund costs by over \$12 million, representing an increase of approximately 15%. However, unless decisions were made to prorate these added costs on the basis of current billings, there would be a wide variation among business lines in the degree to which pricing policies would need to change. The absolute dollar impact would be greatest for the Building

Occupancy business line, because over half of the Federal staff members supporting the Working Capital Fund are located in that business line. Figure A provides a profile, for business lines other than Building Occupancy, of the absolute dollar amounts of inter-business costs and Federal Salaries in relation to the current billings of the business.<sup>2</sup> Figure B expresses the data as percentages (subsidized costs divided by current billings), and Table III ranks business lines in order of the percentage subsidy.

Table III. 1999 Subsidies by Business Line		
<b>Business Line (Consumer)</b>	<b>Total Subsidy (\$000)</b>	<b>Percent of Current Billings</b>
Networking	\$109	4%
Telephones	\$401	\$6%
Contract Closeout	\$48	8%
Building Occupancy	\$4,800	9%
<i><b>Average for All Businesses</b></i>		<i><b>15%</b></i>
Desktop	\$311	19%
Copiers	\$510	21%
Mail Services	\$454	27%
<i><b>Average for Businesses other than Building Occupancy</b></i>		<i><b>31%</b></i>
Supplies	\$1,084	37%
Printing	\$1,063	43%
Payroll and Personnel	\$1,398	68%
Executive Information System	\$102	109%
Graphics	\$1,749	269%
WCF Management Activity	\$223	N/A

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<sup>2</sup> Building Occupancy is so large that it was omitted from Figure A to avoid distorting the scale of other business lines.

For all businesses, there is a weighted average subsidy of 15%. However, because of the size (over 70% of the Fund) and proportionately low (9%) subsidy rate for Building Occupancy, this overall subsidy average may be unrepresentative. Therefore, in Table III, it is noted that there is an average subsidy rate of 31% for businesses other than Building Occupancy. The comparable amounts from the 1998 analysis were 13% for all businesses, including Building Occupancy, and 27% for business lines other than Building Occupancy.

### Business Line Impacts

This analysis focuses on the pricing policies for business lines with rates of subsidy in excess of the 31% average subsidy rate for businesses other than Building Occupancy.

#### Supplies

In FY 1999, with a markup of 30% above acquisition costs, the Supplies business is expected to have revenues approaching \$2.9 million. This reflects a wholesale acquisition cost of goods sold of \$2.2 million, with a markup for operating costs of another \$0.7 million. Removal of the \$1.0 million subsidy (primarily for space) would require more than doubling the markup by adding approximately one-third to the current total cost.

In June, the business conducted a price comparison for 28 items in a "market basket" and concluded that DOE supply store prices were below those of other vendors for 19 of the 28 products. If DOE prices were increased by one-third to reflect removal of the subsidy, the DOE supply store price advantage would be limited to 6 of the 28 products. It is unknown whether loss of price advantage for these commodities would cause customers to forego the convenience of shopping within the DOE complex, but there would clearly be more competitive pressure on the business than at present.

#### Printing

The Printing business line operates substantially as a monopoly, because all printing must be acquired through the Government Printing Office or its contractors. Under current pricing policies, each organization pays the business exactly the cost DOE pays through to GPO, except that an overhead charge is allocated based on the printing services provided in the prior year.

If the \$1 million subsidy indicated on Table III were removed, the Board would need to decide whether to cover the subsidy by tripling the Printing overhead charge based on prior year usage or whether to institute a percentage add-on to the actual direct contract printing costs. If the Board chose the increase in the overhead charge, it is not likely that there would be an immediate impact on usage, since there is a one-year time lag between printing activity and overhead allocation impacts. If the Board chose to introduce a percentage add-on to actual printing charges, there would likely be some downward movement in printing demand as some customers choose to use desktop production of hard copy materials or more use of home pages and other electronic media.

## Payroll and Personnel

At present, this business line operates somewhat like a monopoly in the sense that organizations are required to receive their payroll services through the Department and pay on a per-employee basis to cover the costs of payroll operations. One exception is Bonneville Power Administration, which chose to implement its own payroll system.

If the Department distributed a further \$1.4 million in payroll operating costs over the employees now in the system, and pricing methodologies were left unchanged, participating organizations would have to pay approximately \$115 per employee per year in addition to current costs. In the short run, it is expected that most organizations would choose to absorb these costs. Over the longer run, it is possible that one or more organizations could consider requesting to leave the DOE system in favor of acquiring payroll services from other Federal agencies. Given the relatively high proportion of fixed costs in maintaining a payroll system, a loss of customers could lead to even higher unit costs for continuing customers, increasing further the incentives to change.

## Executive Information System

The EIS business line is a small pilot effort to meet the needs for certain types of complex-wide management information by having Headquarters organizations purchase access to the data systems. The size of the business line in the Fund understates its true size, because field sites do not pay into the Fund like Headquarters organizations. Therefore, while removing the subsidy appears to require doubling the revenue structure, it would not double the size of the entire effort. The Board would need to decide whether and how to reflect the removal of the subsidy for the portion of the business line that is included in the Fund.

## Graphics

Graphics is an unusual business line, because only a relatively small fraction of the costs are for contractual services, leaving most costs outside the Fund. Like Printing, Graphics overhead charges are based on a time-lagged formulae regarding prior year workload. However, Printing involves a legislated monopoly, whereas there are few barriers to customer use of contractors or other methods to acquire graphics services.

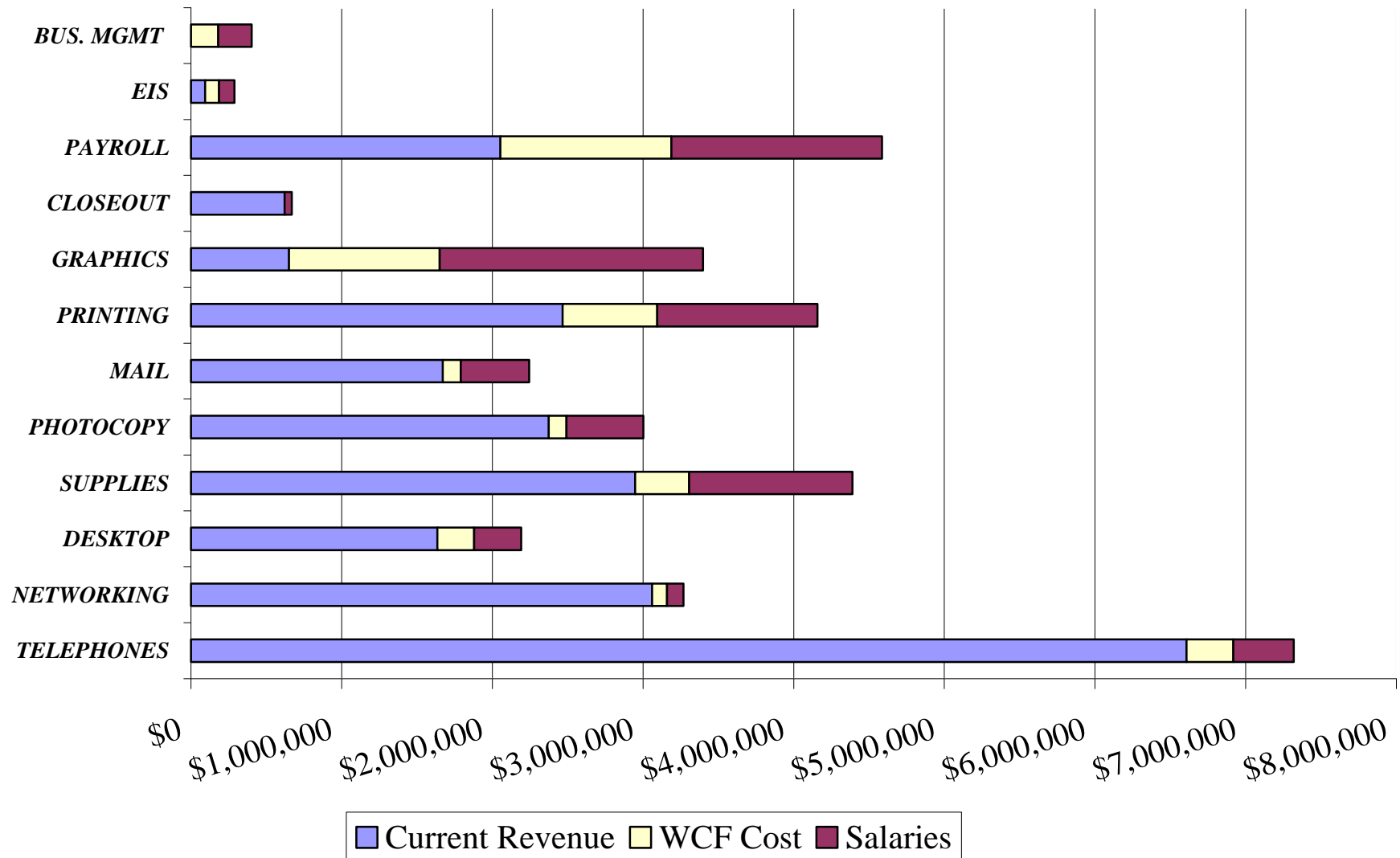
Because Graphics is Federal employee-intensive, the Graphics business line would face the likelihood of substantial change if the subsidies were removed. As discussed in more depth in the 1998 analysis, graphics contractor pricing tends to be very sensitive to such factors as transportation costs, setup time, advance notice, and changes in requirements. Short turnaround assignments are particularly expensive, and much of the work of the Graphics organization involves such short turnaround jobs.

## Working Capital Fund Inter-Business Costs (\$000)

	Business Line Customer															TOTAL
	TELEPHONES	NETWORKING	DESKTOP	ELECTR. SUPPORT	BUILDING OCCUPANCY	SUPPLIES	PHOTOCOPY	MAIL	PRINTING	GRAPHICS	CLOSEOUT	PAYROLL	EIS	BUS. MGMT		
Business Line Supplier																
TELEPHONES	\$8	\$2	\$6	\$0	\$132	\$13	\$6	\$4	\$15	\$27	\$0	\$35	\$2	\$4	\$252	
NETWORKING	\$4	\$1	\$3	\$0	\$74	\$8	\$3	\$2	\$9	\$15	\$0	\$20	\$1	\$2	\$143	
DESKTOP	\$3	\$1	\$2	\$0	\$49	\$5	\$2	\$1	\$6	\$10	\$0	\$15	\$1	\$1	\$96	
ELECTRONIC SUPPORT	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
BUILDING OCCUPANCY	\$20	\$4	\$10	\$0	\$309	\$682	\$369	\$317	\$378	\$663	\$34	\$147	\$4	\$25	\$2,961	
SUPPLIES	\$4	\$1	\$3	\$0	\$73	\$7	\$3	\$2	\$8	\$15	\$0	\$20	\$1	\$2	\$141	
PHOTOCOPY	\$2	\$1	\$17	\$0	\$12	\$4	\$6	\$5	\$10	\$8	\$10	\$12	\$1	\$1	\$89	
MAIL SERVICE	\$2	\$1	\$2	\$0	\$11	\$4	\$2	\$3	\$5	\$9	\$3	\$12	\$1	\$1	\$56	
PRINTING	\$45	\$0	\$24	\$0	\$0	\$0	\$0	\$0	\$4	\$0	\$0	\$0	\$0	\$0	\$73	
GRAPHICS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
CLOSEOUT	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
PAYROLL	\$1	\$0	\$1	\$0	\$12	\$1	\$1	\$0	\$1	\$2	\$0	\$3	\$0	\$0	\$22	
EIS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5	\$5	
TOTAL	\$90	\$10	\$68	\$0	\$672	\$725	\$391	\$335	\$435	\$749	\$48	\$264	\$10	\$42	\$3,839	



**Figure A: WCF Cost Subsidy, 1999**



**Figure B: WCF Percentage Subsidy, 1999**

